

Draft

MINUTES OF MEETING

STATE OF WISCONSIN EMPLOYEE TRUST FUNDS BOARD Friday, March 22, 2002

**Radisson Inn Madison
517 Grand Canyon Drive
Madison, Wisconsin**

BOARD PRESENT:

Marilyn Wigdahl, Chair
Wayne Koessler, Vice-Chair
Robert Niendorf, Secretary
John Brown
Sherry Brown
Stephen Frankel
James Gruentzel
Irena Macek
Wayne McCaffery
Vicki Poole (*representing Peter Fox*)
Nancy Thompson

BOARD NOT PRESENT:

Cynthia Van Bogaert

PARTICIPATING STAFF:

Eric Stanchfield, Secretary
Dave Mills, Deputy Secretary
Julie Reneau, Administrator, Division of Retirement Services
Tom Korpady, Administrator, Division of Insurance Services
Janet Klosterman, Board Coordinator
Linda Owen, Division of Retirement Services
Shelly Schueller, Office of the Secretary

OTHERS PRESENT:

Gail Cartter, Office of Internal Audit
Bill Ford, Wisconsin Legislative Council
Charlotte Gibson, Department of Justice
Jane Hamblen, Department of Justice
Pam Henning, Director, Office of Strategic Services
Brian Murphy, Gabriel, Roeder, Smith & Company
Durell Vieau, Department of Employment Relations
Sharon Walk, Division of Management Services
Robert Weber, Chief Counsel
Vicki Wickliffe, Office of Internal Audit

Ms. Wigdahl called the meeting to order at 9:00 a.m. She announced that Brian Murphy would present the actuarial report as the first order of business.

19th Annual Actuarial Valuations of Retired Lives - December 31, 2001

Brian Murphy, Gabriel, Roeder, Smith & Company briefly reviewed the highlights of the report and responded to questions.

The results of the valuation may be briefly summarized as follows (\$ millions).

Summary		
	Fixed	Variable
Number of Annuitants	112,142	28,314
Annual Amount	\$2,048.6	\$424.4
Fund Balance	\$21,979.7	\$3,901.8
Actuarial Reserve	\$21,283.6	\$4,547.4
Ratio	1.033	0.858

Based upon these results, effective April 1, 2002 (payment on May 1, 2002), fixed annuities would be increased by 3.3% and variable annuities would be decreased by 14%.

Ms. Reneau noted that she had discussed the proposed dividends with the Board Chair on February 25, 2002 and obtained approval to proceed with departmental processes in order to pay the dividends on May 1, 2002.

MOTION: Mr. Frankel moved acceptance of the report and approval of the consulting actuary's recommendation on the fixed and variable annuity dividends.

Consideration of Minutes of Previous Meetings

MOTION: Mr. Koessler moved approval of the minutes of the December 14, 2001 meeting as submitted by the Board Coordinator. Ms. Thompson seconded the motion, which passed without objection on a voice vote.

Election of Officers

➤ Chair

NOMINATION: Mr. Niendorf nominated Marilyn Wigdahl to serve as Chair of the Employee Trust Funds Board. Mr. Koessler seconded the nomination.

MOTION: Hearing no further nominations, Mr. Gruentzel moved that the nominations be closed and a unanimous ballot be cast for Marilyn Wigdahl as Chair of the Employee Trust Funds Board. Ms. Thompson seconded the motion, which passed without objection on a voice vote.

➤ Vice-Chair

NOMINATION: Mr. Brown nominated Wayne Koessler to serve as Vice-Chair of the Employee Trust Funds Board. Mr. Frankel seconded the nomination.

MOTION: Hearing no further nominations, Mr. Gruentzel moved that the nominations be closed and a unanimous ballot be cast for Wayne Koessler as Vice-Chair of the Employee Trust Funds Board. Mr. Brown seconded the motion, which passed without objection on a voice vote.

➤ **Secretary**

NOMINATION: Mr. Koessl nominated Bob Niendorf as Secretary of the Employee Trust Funds Board. Mr. Frankel seconded the nomination.

MOTION: Hearing no further nominations, Ms. Thompson moved that the nominations be closed and a unanimous ballot be cast for Bob Niendorf as Secretary of the Employee Trust Funds Board. Mr. Frankel seconded the motion, which passed without objection on a voice vote.

Scope Statement for a Proposed Administrative Rule

➤ **Amendment to Rule Governing Annuitant Dividends**

Ms. Owen presented a scope statement for a proposed administrative rule that would amend the rule governing annuitant dividends. The primary objective of the proposed amendment is to distribute the annual annuitant dividends one month earlier, so that annuitants would receive the dividend beginning with the April 1 payment rather than on May 1. When the original rule specifying the effective date of annuitant dividends was promulgated, the May 1 effective date now specified in the rule was a realistic date. However, improved automation has made it possible to gather the data needed to calculate the dividend rates and to make the annuity adjustments more quickly. This is desirable both from an equity and customer service perspective.

The amendment would also make changes related to prorating dividends under Wis. Adm. Code ETF 20.25, reducing the minimum percentage by which annuities can be adjusted. This would have the effect of recognizing any year's annuity reserve surpluses more rapidly.

MOTION: Mr. Gruentzel moved approval for drafting a proposed administrative rule that would amend the rule governing annuitant dividends as recommended by staff. Mr. Niendorf seconded the motion, which passed without objection on a voice vote.

Miscellaneous

The following documents were included for the Board's information.

- **Pending Appeal Status Report.** It was noted that the total number of appeals as of March 1, 2002 is 236, which is down from 300 at the beginning of the fiscal year.
- **Employee Reimbursement Accounts (ERA) and Qualified Transportation Benefit (QTB) program updates.**
- **Internal Audit Reports**
 - *IRS Automatic Distributions (#2001-3A)*
 - *Verifying Annuitant Data By Using Social Security Administration's Enumeration Verification System (#2002-1A)*
- **Equity Authority Report.** Ms. Schueller reported that the Department's equity authority, Wis. Stats. § 40.03(2)(w) was created by 2001 Wisconsin Act 16 and was effective August 31, 2001. The intention of this statute is to permit the Department Secretary to correct and prevent inequities that result from errors made by Department staff of the type described in the statutes.

She further reported that the Secretary first exercised this authority on January 24, 2002 and briefly discussed the circumstances involved in the situation documented as ETF Equity Authority #2002-01.

Secretary Stanchfield noted that this type of report would become a regular part of the quarterly Board meeting materials, when the authority has been exercised.

- **Strategic Business Planning Process.** Ms. Reneau reported that staff would have information to share regarding the survey results and strategic business planning process at the June meeting.
- **Staff Presentations.** Secretary Stanchfield reported that the Secretary's Office hosted three brown bag lunch sessions to have timely and candid discussions with staff regarding benefit provisions that were included in the different versions of the proposed budget adjustment bill.
- **Board Member Recognition.** Secretary Stanchfield announced that Marilyn Wigdahl and Wayne McCaffery have earned the Certificate of Achievement in Public Plan Policy (CAPPP) from the International Foundation of Employee Benefit Plans (IFEBP) and that staff would like to offer their recognition of their accomplishments. He further noted that Ms. Wigdahl had completed the employee pension course while Mr. McCaffery had completed both the employee pension and employee health courses.

Secretary Stanchfield presented each with a certificate issued by the IFEBP, which had been made into a plaque in honor of their accomplishment.

Retirement & Death Benefits

Ms. Reneau presented **Exhibit A - Report of Retirement Annuity Applications Approved** for the months of December 2001 and January and February 2002, **Exhibit A-1 - Terminated Retirement Annuity Benefits** for the months of December 2001 and January and February 2002, and **Exhibit C - Beneficiary Annuity Applications Approved** for the months of December 2001 and January 2002.

MOTION: Mr. Brown moved approval of Exhibit A - Report of Retirement Annuity Applications Approved for the months of December 2001 and January and February 2002, Exhibit A-1 - Terminated Retirement Annuity Benefits for the months of December 2001 and January and February 2002, and Exhibit C - Beneficiary Annuity Applications Approved for the months of December 2001 and January 2002. Mr. Frankel seconded the motion, which passed without objection on a voice vote.

Proposed Benefit Report

Ms. Schueller presented a draft benefit annuity statistical report for review and comment. This report provided summary information on the retirement benefit annuity, disability benefit annuity, and beneficiary benefit annuity applications approved and terminated by the Boards. It also contained current data on the 1999 Wis. Act 11 benefit adjustment backlog. The report was intended to provide a better understanding of trends in WRS benefits.

Ms. Schueller reported that staff plans to present this information at each meeting. For the future, staff would like the Board to consider accepting this report in lieu of the individual benefit lists. The Board is also asked to consider delegating benefit approvals to the Department.

There are four parts to this report:

1. The retirement annuity summary section replaces Exhibits A and A-1. It contains the total number of new retirement benefits started on estimates and finalized in each of the past three months, along with a breakdown by option type selected and information on whether the formula benefit or the money purchase benefit yielded a higher annuity. It also contains the total number of benefits at the maximum formula benefit, a breakdown by gender, and retirement annuity termination totals and by type of termination (returned to work or converted to lump sum). Finally, this section includes the gross annuity payments paid out by ETF in the last three months.
2. The disability annuity summary replaces Exhibit B. It contains similar information as the retirement summary, except that it is specific to the disability programs. It has the total number of disability applications by type of disability, by option type selected, and by gender. It includes a breakout of the disability annuity determinations completed in the past three months.
3. The beneficiary annuity summary replaces Exhibits C and C-1. It provides the total number of beneficiary annuity applications started in the past three months. When there are beneficiary annuity terminations in the reporting period, this information will be included here as well.
4. The Act 11 benefit adjustment backlog. This section shows progress on the backlog of manual annuitant dividends, lump sum benefit supplements, pre-July 2001 final estimated annuities and corrections to final calculations generated by Act 11.

Ms. Schueller noted that this first draft includes data that staff was able to extract from the current computer systems. The Department intends to further expand these statistical reports as part of the Benefit Payment System. Additional statistics include an additional breakdown of annuity applications by age in 5-year increments, average years of service, age at the time a benefit is taken, information on death benefits and comparisons of data on a year-to-year basis. She encouraged the members to contact her if there is additional information they would like to see incorporated into this report.

MOTION: Mr. Gruentzel moved to adopt the new format of a Benefit Annuity Statistical Report in lieu of the existing exhibit lists A, A-1, C and C-1 and delegate authority to staff for approving the benefits and compiling the summary report utilizing data from the exhibit lists for the Board's information and acceptance. Ms. Brown seconded the motion, which passed without objection on a voice vote.

Proposed Statutory Changes Related to Trust Fund and Benefit Plans

Ms. Reneau reviewed benefit provisions included in the proposed budget adjust bill, referring back to the memo presented during the Joint Informational meeting for additional detail.

After extensive discussion regarding the impact that these proposed changes would have on benefit programs governed by this Board and administered by the Department of Employee Trust Funds, the Board authorized the Chair to work with staff in developing two letters on the Board's behalf. The first letter would convey the Board's concerns about selected aspects of the "retirement window" under discussion to Senators Meyer and Wirch who are two of the primary supporters of the proposal.

The second letter is to convey that the Employee Trust Funds Board concurs with the concerns expressed by Secretary Stanchfield as well as the Group Insurance Board in separate letters to the Co-Chairs of the Joint Committee on Finance and to stress the Board's strong concerns with any action that would result in delaying currently required payments to the trust until future years.

The letters that were drafted and sent on behalf of the Employee Trust Funds Board are included as **Attachment I**.

Consultation with Legal Counsel

Attorney Weber provided a brief update on the status of **Circuit Court Case No. 01-CV-3142**, *Bob Lehmann, President, Milwaukee Teachers' Education Association, Michael Dreyer, Hedy Reynolds, Jolene Smaney and Wisconsin Education Association Council, Plaintiffs vs. Employee Trust Funds Board, Department of Employee Trust Funds and Eric. O. Stanchfield, Secretary, Defendants*.

Attorney Hamblen updated the Board on the status of **Circuit Court Case No. 01-CV-0021**, *Betty Jurci, Petitioner vs. Wisconsin Employee Trust Funds Board, Department of Employee Trust Funds and City of New Berlin, Respondents* and **Circuit Court Case No. 01-CV-2840**, *Joan Solie and Ann Baxter, Plaintiffs vs. Employee Trust Funds Board and the Department of Employee Trust Funds, Defendants*.

Motion to Convene in Closed Session

Ms. Wigdahl announced that the Employee Trust Funds Board would convene in closed session pursuant to exemptions contained in Wis. Stats. § 19.85 (1) (a) and (e), for quasi-judicial deliberations and deliberations that involve the competitive bargaining aspects involving the expenditure of public funds.

Ms. Wigdahl invited staff from the Departments of Employee Trust Funds and Employment Relations and Attorneys Hamblen and Gibson from the Department of Justice to remain during the actuarial contract extension negotiations report. Attorney Hamblen, Attorney Gibson, Ms. Vieau, Ms. Walk and Ms. Klosterman were also invited to remain for quasi-judicial deliberations relating to appeals.

MOTION: Ms Brown moved to convene in closed session pursuant to exemptions contained in Wis. Stats. § 19.85 (1) (a) and (e), for quasi-judicial deliberations and for deliberations that involve competitive bargaining aspects involving expenditure of public funds. Ms Thompson. seconded the motion, which passed without objection on a roll call vote.

MEMBERS VOTING AYE: Brown, Brown, Frankel, Gruentzel, Koessler, Macek, McCaffery, Niendorf, Poole, Thompson and Wigdahl.

MEMBERS VOTING NAY: None.

The Employee Trust Funds Board convened in closed session at 11:19 a.m. and reconvened in open session at 11:58 a.m.

Announcement of Action Taken on Business Deliberated on During Closed Session

Ms. Wigdahl announced that during the closed session the Board:

- Approved a three-year extension of the actuarial service contract with Gabriel, Roeder, Smith & Company.
- Signed a conflict of interest waiver to allow Jane Hamblen of the Department of Justice to represent the Board in the pending lawsuit filed as a result of the Department implementing the provisions of 1999 Wisconsin Act 11.
- Adopted the Hearing Examiner's Proposed Decisions with amendment recommended by Counsel in the matter of Appeal #'s 98-141-ETF, 2000-041-ETF and 2000-049-ETF.
- Rejected the Hearing Examiner's Proposed Decision in the matter of Appeal #96-069-ETF and found that the appellant qualified as a participating employee at an earlier date.

Adjournment

MOTION: Mr. Niendorf moved to adjourn. Ms. Brown seconded the motion, which passed without objection on a voice vote.

The Employee Trust Funds Board meeting adjourned at 12:00 p.m.

Date Approved: _____

Signed: _____
Robert Niendorf
Secretary